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The Arc Baton Rouge
Baton Rouge, Louisiana
June 30, 2007

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December 10, 2007

Independent Auditor's Report

The Officers and Board of Directors
The Arc Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the accompanying statements of financial position of

The Arc Baton Rouge
(A Non-Profit Organization)
Baton Rouge, Louisiana

as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Arc Baton Rouge as of June 30, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2007, on our consideration of The Arc Baton Rouge's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

The Arc Baton Rouge
Statements of Financial Position
June 30, 2007 and 2006

Assets

	2007	2006
Assets		
Cash and cash equivalents	$551,058	$326,016
Investments	79,902	70,437
Receivables		
Trade	109,078	163,330
State contracts	123,081	413,860
Federal contracts	390,446	2,905
Notes receivable	35,664	38,103
Inventory	15,533	17,615
Property, Plant and Equipment, Net	1,053,521	1,218,322
Deposits	21,323	25,041
Prepaid pension cost	120,045	
Total assets	2,499,651	2,275,629

Liabilities and Net Assets

	2007	2006
Liabilities		
Accounts payable	128,724	123,324
Accrued expenses	258,519	224,246
Accrued pension cost		172,708
Total liabilities	387,243	520,278
Net Assets		
Unrestricted	2,112,408	1,755,351
Total liabilities and net assets	2,499,651	2,275,629

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statements of Activities
Years Ended June 30, 2007 and 2006

Unrestricted Net Assets	2007	2006
Operating:		
Unrestricted Revenue and Gains		
State contracts	$4,934,585	$4,517,226
Federal awards	125,454	237,051
Program sales and service fees	567,726	633,577
Capital Area United Way	227,841	262,755
Contributions	66,727	49,156
Investment return	12,526	6,316
Public grants and other income	527,606	265,345
Total unrestricted revenue and gains	6,462,465	5,971,426
Expenses		
Program services	5,792,722	5,303,433
General and administrative	488,369	616,572
Fund raising	2,628	2,726
Total expenses	6,283,719	5,922,731
Increase in Net Assets From Operating Activities	178,746	48,695
Non-Operating:		
Pension-related changes other than net net periodic pension costs	178,311	
Increase in Net Assets	357,057	48,695
Net Assets, beginning of year	1,755,351	1,706,656
Net Assets, end of year	2,112,408	1,755,351

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2007

	Metro Enterprises Business	Metro Enterprises Rehabilitation	Children's Services	Respite Care Programs	Louisiana Career Development Center	Vocational Services Placement	Community Services	Community Life	Total Program Services	Management General and Other	Fund Raising	2007 Totals
Compensation and Related Benefits												
Salaries	$337,418	$538,301	$630,372	$1,121,271	$259,350	$146,950	$65,980	$777,910	$3,877,552	$209,355	$2,500	$4,089,407
Payroll taxes and insurance	27,565	39,304	47,068	87,467	19,698	10,241	5,019	60,926	297,288	9,512	128	306,928
Employee health	2,374	60,831	39,346	81,978	19,635	16,057	6,536	56,929	283,686	13,421		297,107
Retirement and life plans	303	9,132	8,609	2,290	3,295	2,623	1,995	1,373	29,620	16,707	—	46,327
	367,660	647,568	725,395	1,293,006	301,978	175,871	79,530	897,138	4,488,146	248,995	2,628	4,739,769
Contractual services	54,140								54,140			54,140
Professional services			135,447	18,277	18,600		429	65,540	238,293	20,455		258,748
Supplies	1,081	8,310	28,804	9,846	2,543	959	2,137	3,676	57,356	11,048		68,404
Utilities	16,043	35,599	29,552	17,952	20,775	9,552		5,103	134,576	16,261		150,837
Maintenance and equipment rental	9,549	12,503	23,241	15,119	6,159	4,279	65	3,760	74,675	6,030		80,705
Membership dues		153	398	114	268	76		191	1,200	22,148		23,348
Conferences and meetings	186	867	8,235	2,247	12,380	552		1,868	26,335	7,296		33,631
Office expenses	142	70	975	497	177	78		511	2,450	3,627		6,077
Worker's compensation	20,195	3,275	6,714	61,834	1,687	960	847	42,203	137,715			137,715
General insurance		264	227						491	76,492		76,983
Vehicle expenses	11,590	10,941		1,330					23,861			23,861
Program transportation	424	24,002	11,823	27,386	3,391	2,244	92	22,027	91,389	836		92,225
Interest expense		59							59	42		101
Other expenses	2,344	4,693	5,098	6,078	720	630	1,545	1,355	22,463	26,864		49,327
Assistance to individuals				25	100		345,446	2,063	347,634	275		347,909
Depreciation	19,978	26,482	10,232	5,947	24,706	4,594			91,939			91,939
Loss on land sale	—	—	—	—	—	—	—	—	—	48,000	—	48,000
Total functional expenses	503,332	774,786	986,141	1,459,658	393,484	199,795	430,091	1,045,435	5,792,722	488,369	2,628	6,283,719

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statement of Functional Expenses
Year Ended June 30, 2006

	Metro Enterprises Business	Metro Enterprises Rehabil-itation	Children's Services	Arc Day School	Respite Care Programs	Louisiana Career Development Center	Vocational Services Placement	Community Services	Community Life	Other Programs	Total Program Services	Manage-ment General and Other	Fund Raising	2006 Totals
Compensation and														
Related Benefits														
Salaries	$330,064	$501,229	$436,349	$144,660	$1,005,409	$274,400	$143,022	$89,447	$741,191	$6,495	$3,672,266	$302,577	$2,500	$3,977,343
Payroll taxes														
and insurance	26,924	37,998	31,661	11,674	80,456	21,056	10,313	6,872	58,946	587	286,487	20,692	128	307,307
Employee health	4,672	62,170	33,471	6,378	75,293	20,617	15,342	9,927	62,896		290,766	68,701		359,467
Retirement and														
life plans	1,576	30,989	25,977	11,037	14,227	15,052	8,725	5,189	5,309	—	118,081	7,767	—	125,848
	363,236	632,386	527,458	173,749	1,175,385	331,125	177,402	111,435	868,342	7,082	4,367,600	399,737	2,628	4,769,965
Contractual services	62,037	84									62,121			62,121
Professional services			37,467		1,525	24,666		2,345	3,291		69,294	24,689		93,983
Supplies	2,648	4,439	5,295	9,608	8,663	2,116	669	1,880	3,247	36	38,601	5,499		44,100
Utilities	16,805	37,853	23,740	322	16,920	21,255	9,850		5,446	1,477	133,668	15,116		148,784
Maintenance and														
equipment rental	7,403	14,114	14,913	873	8,926	7,541	1,843	130	2,689	65	58,497	13,708		72,205
Membership dues	153				180	408	76		57		874	18,365		19,239
Conferences and meetings	160	314	853	15	1,319	5,831	222	408	1,844		10,966	6,472		17,438
Office expenses	147	115	1,632		416	674	485		326		3,795	5,203		8,998
Worker's compensation	13,012	19,759	17,201	5,703	39,635	10,817	5,638	3,526	29,219	256	144,766	11,928	98	156,792
General insurance	264	40	551								855	73,690		74,545
Vehicle expenses	8,236	12,367			2,360						22,963			22,963
Program transportation	295	22,162	13,732	54	24,037	3,820	2,723	52	23,788	8	90,671	293		90,964
Interest expense		977									977	4,520		5,497
Other expenses	1,458	4,178	3,744	639	2,575	2,121	529	2,678	2,034	(454)	19,502	31,958		51,460
Assistance to individuals			56			41		182,341	1,200		183,638	155		183,793
Depreciation	20,770	28,379	6,328	1,266	9,705	23,431	4,766	—	—	—	94,645	5,239	—	99,884
Total functional expenses	496,624	777,167	652,970	192,229	1,291,646	433,846	204,203	304,795	941,483	8,470	5,303,433	616,572	2,726	5,922,731

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Statements of Cash Flows
Years Ended June 30, 2007 and June 30, 2006

	2007	2006
Cash Flows From Operating Activities		
Increase in net assets	$357,057	$48,695
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	91,939	99,884
Loss on disposal/sale of fixed asset	48,000	214
Net unrealized (gain) loss on investments	(6,034)	261
Changes in operating assets and liabilities		
(Increase) decrease in:		
Accounts receivable	(42,510)	(6,034)
Inventory	2,082	(4,029)
Deposits	3,718	
Prepaid pension cost	(120,045)	
Increase (decrease) in:		
Accounts payable	5,400	1,101
Accrued expenses	34,273	23,618
Accrued pension cost	(172,708)	(68,904)
Net cash provided by operating activities	201,172	94,806
Cash Flows From Investing Activities		
Proceeds from sale of land	62,000	
Purchase of property and equipment, net	(37,138)	(16,430)
Net change in investments	(3,431)	5,630
Collections on notes receivable	2,439	2,649
Net cash provided (used) by investing activities	23,870	(8,151)
Cash Flows From Financing Activities		
Payments on notes payable - vehicle		(18,089)
Capital lease payments		(10,180)
Payments on line of credit		(148,141)
Net cash provided (used) by financing activities		(176,410)
Net Increase (Decrease) in Cash and Cash Equivalents	225,042	(89,755)
Cash and Cash Equivalents, beginning of year	326,016	415,771
Cash and Cash Equivalents, end of year	551,058	326,016
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for		
Interest	-	5,497

The accompanying notes are an integral part of these financial statements.

The Arc Baton Rouge
Notes to Financial Statements
June 30, 2007

Note 1-Nature of Organization

The Arc Baton Rouge (Organization) is a not-for-profit organization which promotes, develops, monitors, supports and directly provides services to improve the well being of people with disabilities and their families from East Baton Rouge and surrounding parishes. The Arc Baton Rouge has various funding resources that includes the Capital Area United Way agency and federal and state contracts and grants.

The Arc Baton Rouge offers the following service programs:

Metro Enterprises: (Metro Business and Metro Habilitation) Day program services offer opportunities for people (age 22 and over) with mental retardation or other developmental disabilities to become more independent, integral and productive members of society. Services include work adjustment training, community life enrichment and paid work experience.

The Arc Baton Rouge Children's Services: (The Arc Early head Start and Child Care Center and Early Intervention) Promotes the rights and full inclusion of children with special needs and their families. Together with community partners, the program provides services, supports and advocacy that inspire our community and individuals. The program provides child development services through The Arc Early Head Start and Child Care Center. Early Intervention services are provided for children with disabilities and families in home and community setting. The program also supports inclusion through training and technical assistance projects to support Early Childhood teachers and child care providers to include children with disabilities in natural settings. The Arc Children's Services also provide services to families of children with disabilities through parent support and training.

Respite Care Programs: Provides relief for the primary care provides of children and adults with developmental disabilities, from the everyday care, whether it's physical assistance, supervision, accompanying on outings. The support may occur in the individual's home or in the community or in the Respite Center. It may occur regularly or the family may only request assistance in an emergency situation. It is the primary objective of Respite to help prevent or delay institutionalization of individuals with developmental disabilities.

Louisiana Career Development Center: Provides individuals who are deaf or deaf/blind with comprehensive assessments, travel training, work ethics training (including an internship), individual job placement in area businesses, and follow-up support to employees and employers.

Baton Rouge Vocational Services: Develops and creates employment opportunities for individuals (age 16 and older) with disabilities through partnership with LRS. Provides vocational assessments, job readiness skills, job placement and training service and follow-up services.

Community Services: Provides disability education to the general public, service referral, advocacy, crisis assistance, and coordination of volunteer efforts, as well as recreational and leisure activities. Works with other established agencies to provide inclusive recreational opportunities for persons with developmental disabilities, coordinates an array of recreational and special events. An adaptive swim program with individual therapy and lessons is offered every summer.

Community Life: Provides supported living services to adults with developmental disabilities who require assistance or support to live in their own homes in the community. The goal of Community Life is to provide opportunities and support for individuals in their quest to live as independently as possible and to be successfully included in the community.

Note 2-Significant Accounting Policies

A. Basis of Accounting

The financial statements are presented using the accrual basis of accounting.

B. Basis of Presentation

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted assets. Unrestricted net assets include those net assets whose use by the Organization is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those assets whose use by the Organization has been limited by donors to (a) later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Organization's use of the asset. The Organization does not have any temporarily or permanently restricted net assets.

C. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

The Organization considers all funds on hand and with financial institutions to be cash equivalents.

E. Receivables

The Organization considers receivables to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made

F. Inventory

Inventory is stated at the lower of cost or market using the first-in first-out method.

G. Investments

Investments in equity securities with readily determinable fair values and all debt securities are carried at fair value. Fair value is determined using quoted market prices (where available), or if not available, estimated fair values based on quoted market prices of financial instruments with similar characteristics. All other investments are carried at the lower of cost or market. Recognized gains and losses on investments are reflected in the statement of activities. Dividends and interest income are recorded during the period earned.

Note 2-Significant Accounting Policies (Continued)

H. Property and Equipment

Property and equipment are recorded at cost. Property and equipment donated for operations are recorded as additions to net assets at fair value at the date of receipt and depreciated using the straight-line method of depreciation over the useful lives of the assets, which range from 5-29 years.

Expenditures for major additions of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

I. Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

J. Grant Contracts

The Organization depends significantly on grant contract reimbursements to carry out its program activities. This revenue is disclosed as program revenue on the statements of activities.

Grant revenue is recorded as related expenses are incurred, and reimbursement requests are submitted to the grantor agency.

K. Retirement Plan

The retirement plan is a defined benefit plan which covers substantially all full-time salaried employees.

L. Income Taxes

The Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation.

Note 2-Significant Accounting Policies (Continued)

M. Functional Expenses

The Organization allocates functional expenses primarily by specific identification of program expenses which include salaries of personnel assigned to specific programs. However, certain administrative salaries and related expenses and other general expenses are allocated using percentages which are adjusted annually. These percentages coincide with grant agreements and budgets.

N. Reclassifications

Certain reclassifications have been made to the prior year's financial statements to conform with the current year's financial statement presentation. The reclassifications had no effect on net assets or the increase in net assets.

Note 3-Investments

Investments in money market funds and certificates of deposits are stated at cost and equity investments are stated at market value as quoted by national publications. At June 30, 2007 and 2006 investments are as follows:

	2007	2006
Money Market Funds	$62,125	$8,970
Certificates of deposit with maturities from one to two years and interest rates from 4.0% to 4.8%.		49,724
Equity investments - corporate stock	17,777	11,743
	79,902	70,437

Investment income from cash equivalents and investments is comprised of the following for the years ended June 30, 2007 and 2006:

	2007	2006
Unrestricted		
Dividends and interest	$6,492	$6,577
Net unrealized gains (loss)	6,034	(261)
Total	12,526	6,316

Note 4-Note Receivable

	2007	2006
The Organization sold facilities on Wayne Drive for $57,000 in 1995 and financed the sale. Terms are monthly installments of $500, and include 9% interest per annum maturing January, 2016. The note is secured by the land and building.	$35,664	$38,103

Note 4-Note Receivable (Continued)

Maturities of note receivable for the next five years following ending June 30, are as follows:

2008	$2,909
2009	3,182
2010	3,480
2011	3,807
2012	4,164
Thereafter	18,122
	35,664

Note 5-Property and Equipment

A summary of property and equipment at June 30, 2007 and 2006, is as follows:

	2007	2006
Buildings and improvements	$2,174,627	$2,174,627
Furniture and equipment	498,813	519,635
Vehicles	105,212	128,597
	2,778,652	2,822,859
Less depreciation to date	1,935,128	1,924,534
	843,524	898,325
Land	209,997	319,997
Property and equipment, net	1,053,521	1,218,322

Note 6-Line of Credit

The Organization has a line of credit with a financial institution for $200,000, due on demand, of which no amounts was drawn at June 30, 2007 or 2006. The interest rate at June 30, 2007 and 2006 was at the prime rate. The line is secured by the building on Kelwood Avenue.

Note 7-Pension Plan

The Organization has a Defined Benefit pension plan which covers substantially all of its employees who meet eligibility requirements. Benefits under the plan are generally based on the employee's compensation during the highest five consecutive calendar years' salary during the last ten completed calendar years of service before retirement. The pension plan is funded in accordance with the requirements of the Employee Retirement Income Security Act of 1974.

The Organization adopted the recognition provisions of FASB Statement 158 as of June 30, 2007, which requires that the funded status of defined benefit pension be fully recognized in the balance sheet as an asset (for overfunded plans) or as a liability (for underfunded plans).

Pension expense for the years ended June 30, 2007 and 2006 was $34,308 and $113,096, respectfully.

Note 7-Pension Plan (Continued)

The following sets forth the plan's funding status and the amounts recognized in the Company's statement of financial position at June 30, 2007 and 2006 as prepared by Mutual of America.

	2007	2006
Funded Status		
Benefit obligation at June 30	$3,261,007	$3,149,331
Fair value of plan assets at June 30	3,381,052	2,971,038
Funded status (deficit)	120,045	(178,293)
Prepaid (accrued) benefit cost recognized in the Statement of Financial Position	($58,266)	($172,708)
Change in benefit obligation due to plan amendments		$0
Change due to assumption changes		($307,811)
Assumptions as of June 30		
Discount rate	6.25%	6.25%
Expected long-term rate of return on plan assets	7.75%	7.75%
Rate of compensation increase per year	4.50%	4.50%
Other Data		
Benefit cost	$34,308	$113,096
Employer contribution	$148,750	$182,000
Employee contribution	None	None
Benefits paid	$84,999	$41,843

Expected Future Benefit Payments

The Organization expects to contribute approximately $120,000 to the plan in 2008. Benefits expected to be paid during the ensuing five years and thereafter, are approximately as follows:

Fiscal Year Beginning	June 30, 2006 Disclosure
July 1, 2007	$172,000
July 1, 2008	7,000
July 1, 2009	40,000
July 1, 2010	94,000
July 1, 2011	251,000
7/1/2012 - 2016	1,830,000

Note 7-Pension Plan (Continued)

Plan Assets by Category

	As of June 30, 2007		As of June 30, 2006	
	Amount	Percent	Amount	Percent
Equity	$1,443,964	42.71	$1,175,891	39.58
Fixed Income	1,901,269	56.23	1,760,539	59.26
General Account	35,819	1.06	34,608	1.16
Total	3,381,052	100.00	2,971,038	100.00

The Organization's investment strategy is a long-term investment mix of forty percent common stocks and sixty percent fixed income investments which include bonds and cash equivalents. The permitted range by investment category is 25% - 75% for common stock and bond funds and up to 40% for cash equivalent funds.

Expected Long-Term Rate of Return on Plan Assets Assumption

The Expected Long-Term Rate of Return on Plan Assets assumption of 7.75% was selected using the "building block" approach described by the Actuarial Standards Board in Actuarial Standards of Practice No. 27 - Selection Economic Assumptions for Measuring Pension Obligations. Based on The Arc Baton Rouge's investment policy for the pension plan in effect as of the beginning of the fiscal year, a best estimate range was determined for both the real rate of return (net inflation) and for inflation based on historical 30 year period rolling averages. An average inflation rate within the range equal to 3.75% was selected and added to the real rate of return range to arrive at a best estimate range of 6.71% - 8.88%. A rate within the best estimate range of 7.75% was selected.

Note 8-Concentration of Risk

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the $100,000 insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with its balances in cash and cash equivalents, to minimize potential risk.

Credit receivables have significant concentrations of credit risk in the governmental sector in the Baton Rouge, Louisiana area. At June 30, 2007 and 2006, the portion of these receivables related to this sector was approximately 82% and 72%, respectively.

Note 9-Economic Dependency

The Organization receives a majority of its revenue from funds provided through programs administered by the State of Louisiana and United Way. The program amounts are appropriated each year by the Federal and State governments and the United Way Agency. If significant budget cuts are enacted at the Federal and/or State level, the amount of the funds the Organization receives could be reduced significantly and have an adverse impact on its operations. Management is not aware of any actions that will adversely affect the amount of funds the Organization will receive in the next fiscal year.

Note 10-Contingencies - Federal and State Programs

The Organization participates in Federal and State programs, which are governed by various rules and regulations. Costs charged to the grant programs are subject to audit and adjustment by the grantor agency; therefore, to the extent that the Organization has not complied with the rules and regulations governing the grants, refunds of any money received and the collectibility of any related receivable at year end may be impaired. In management's opinion, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies. Audits of prior years have not resulted in any significant disallowed costs or refunds. Any costs that would be disallowed would be recognized in the period agreed upon by the grantor agency and The Arc Baton Rouge.

HAWTHORN, WAYMOUTH & CARROLL, L.L.P.

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December 10, 2007

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
The Arc - Baton Rouge
Baton Rouge, Louisiana

Members of the Board:

We have audited the financial statements of The Arc Baton Rouge (A Non-Profit Organization)Baton Rouge, Louisiana, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 10, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Arc Baton Rouge's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Arc Baton Rouge's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Arc Baton Rouge's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as 2007-1 to be significant deficiencies in internal over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether The Arc Baton Rouge's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of management, Board of Directors, federal awarding agencies, pass-through entities, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Waymouth & Carroll, L.L.P.

The Arc Baton Rouge
Summary of Current Year Findings
Year Ended June 30, 2007

Findings - Financial Statement Audit

2007-1: Internal Controls

Condition

As part of the audit process, we have always assisted management in drafting the financial statements and related notes for the year-end audit procedures. The definition of internal control over financial reporting is that policies and procedures exist that pertain to an entity's ability to initiate, record, process, and report financial data consistent with the assertions embodied in the annual financial statements, which for the Organization, is that financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Because our involvement is so key to that process, there is an indication that the internal control over financial reporting of the Organization meets the definition of a significant deficiency as defined above.

Management's Response

We understand that this "deficiency" results from new professional standards that have been adopted by the accounting profession. Significant factors are as follows:

- The Organization generates the appropriate financial information to effectively manage its operations in a timely manner.

- The resources necessary to prepare financial statements in accordance with generally accepted accounting principles would not represent responsible stewardship by our management at this time.

Accordingly, while this finding may be necessary for the professional reasons cited above, we do not consider our current situation to be "deficient", and therefore, conclude that the remedying of the "deficiency" does not represent an approach that the Organization should adopt at this time.

The Arc Baton Rouge
Summary of Prior Year Findings
Year Ended June 30, 2006

No corrective action plan needed by management since no findings were reported and no management letter was issued.